

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

*Bill Leonard, Member
State Board of Equalization*

August 13, 2007

QUOTE OF THE WEEK

“Whereas the expression of political views is cheap, those opinions that are backed by hard cash deserve more notice, even if club wagers are usually the result of postprandial disagreements.”

---Andrew Roberts writing in A History of the English Speaking Peoples Since 1900 about the London Beefsteak Club’s betting book

UNDER THE DOME

*****Structural Deficit Still Haunts Budget*****

I had an excellent discussion with Finance Director Mike Genest last week. Among things I learned why there is a difference between the way the Department of Finance and the LAO report budget numbers, although they arrive at the same conclusions.

On July 24, Legislative Analyst Liz Hill summarized the situation this way:

“Revenues and Expenditures. The budget assumes the state will start 2007-08 with a fund balance of \$4.8 billion. It projects \$102.3 billion in budget-year revenues, an increase of 6.5 percent from 2006-07. The budget authorizes expenditures of \$103 billion, an increase of 1.3 percent from 2006-07. The resulting operating shortfall of \$0.7 billion leaves the General Fund with a year-end reserve of \$3.4 billion.

“Future Shortfalls Likely. Based on current estimates of the policies reflected in the package, the state would continue to face operating shortfalls of about \$5 billion in both 2008-09 and 2009-10, requiring future corrective actions.”

http://www.lao.ca.gov/2007/floor_packet/072007_floor_packet.pdf

Therefore, under the Assembly-approved plan, the state will spend more than it takes in this budget year and only by drawing down reserves is the proposed budget technically balanced. Unless the budget deal is modified, we will end the fiscal year with \$3.4 billion in reserves facing a \$5 billion structural shortfall for 2008-09 and beyond.

In sum, I believe that had the Governor got the CalWorks reform he proposed, along with his plan to pay down the recovery bonds sooner, while protecting public safety and education, then Senator Ackerman and his caucus in the Senate would have voted for the budget long ago. The choices today are difficult but next year is going to be much harder.

ISSUE FOCUS

*****Hooked on Government*****

Back in 1950 the U.S. population was about 152.3 million and 28.3% of those people relied on the government for a substantial portion of their income. By 1980, the population had grown to 227.2 million and more than 55% were dependent on the government. With the election of Ronald Reagan, that percentage began to roll back and by 2000 it was down to 49.4%. Unfortunately, by 2004, that number has jumped to 52.6%. Economist A. Gary Schiller defines “substantial” portion of income as the amount that would cause a very adverse economic consequence to the person if it was no longer available. We seem to be heading in the direction that will overtake that 1980 record high of 55% dependence on government. A look at how that dependence breaks out tells me that we are bound to surpass that record in the next few years: nearly one-in-five people work for government at either the federal, state or local level or they are employed by a company or organization dependent on taxpayer financing; another one-in-five receives either Social Security or a federal pension; more than two million people receive housing subsidies; nineteen million are on food stamps; and five million receive education subsidies.

*****Taxes, Prices and Behavior*****

The Board of Equalization released figures last week showing that gasoline use in the state fell by almost one percent in April. That works out to a reduction of 10 ½ million gallons from last year and the fourth straight quarter in which Californians have used less gas than they did the prior year. The increased price of gasoline means that we pay twice as much in sales tax on it than we did five years ago. That should not be surprising to any California driver, and Board Chair Betty Yee explains that the drop in usage represents “a persistent trend in consumer behavior.” This is an example of what one expects to happen when the burden grows: people change their behavior. Why that is so apparent in this situation but lost on so many of our friends on the left when they advocate for tax increases as a means to bolster revenue is amazing.

One of the reasons that gas prices and taxes drive consumption so obviously is that consumers are keenly aware of how much they pay for every single gallon. They see the prices on each street corner so they can compare and choose the gas station with the lowest price. They know that that stations nearest freeway off-ramps or in less populated areas will have higher prices. However, such information is not as readily available on many products. For example, consumers operate a bit blindly when it comes to using electricity. You know it is 98 degrees outside and 87 degrees in your house, but you do not know whether turning on the air conditioning will cost you \$10.00 or \$100.00. I was pleased to see that Edison is moving forward with plans to install smart meters to allow people to see the variable cost of electricity at

different times of day and with different demand levels. This will give consumers the equivalent of the street corner price boards they use to make decisions about purchasing gasoline. Yet, a spokesperson for the Utility Reform Network said, “Edison is assuming that people will use and respond to this stuff. . . but we don’t have any guaranteed benefits here.” As the downturn in gasoline purchases indicates, consumers do respond to information and when they have the ability, they choose to avoid consumption at higher costs.

*****With Your Free Time and Extra Money...*****

The National Taxpayers Union (NTU) has released its annual study about what it takes to comply with the federal tax code, and, not surprisingly, it is not good news for Americans. Those who use the 1040 forms spent an average of 24.2 hours and \$207 to complete their returns this year. That is up from 23.3 hours and \$179 just three years ago. If you are self-employed, you had it the worst: more than 80 hours. In all, Americans spent 6.65 billion hours last year complying with federal tax laws.

That time is spent because the complexity of the tax code has multiplied. David Keating, the study’s author writes, “Seventy-three years ago the Form 1040 instructions were just two pages long. Even when the income tax became a mass tax during World War II, the instructions took just four pages. Today taxpayers must wade through 143 pages of instructions, well over triple the number in 1975 and nearly triple the number in 1985, the year before taxes were ‘simplified.’ Today’s short form, at 48 lines, has double the number of lines on the 1945 version of the standard 1040 tax return.”

The amount we spend on stuff to help us pay our taxes is huge: \$102 billion for software, postage, tax preparers, etc. And it is likely to get worse before (if) it gets better. NTU warns us that the Alternative Minimum Tax could apply to more than 30 million taxpayers in the next three years and its complexity will have more of us spending more time and more money all to make the IRS happy.

To see the NTU’s tables and calculations, as well as read about how tax professionals get different bottom lines when working with the same set of taxpayer information, see the study here:

http://www.ntu.org/main/press_papers.php?PressID=926&org_name=NTU

*****Recycling Not Always Best for Environment*****

I agree with the author’s conclusion in this article (see link below) that voluntary recycling is an essential part of the market system. When people respond to market incentives to conserve resources and make more money for themselves then everybody wins. However, when recycling is made mandatory and separated from market incentives, the gains are often dubious.

For example, Seattle has one of the strictest mandatory recycling programs in the country. Residents of that city can actually be fined if they put recyclable materials in their regular

garbage. But what apparently has not occurred to those folks is this mandatory program requires twice the number of polluting vehicles to pick up the extra materials than otherwise would be needed if recycling was voluntary.

Bozeman Montana-based Property and Environment Research Center has more to say about this and other “Eight Great Myths about Waste Disposal.” Myth #1 on the list is that we are running out of landfill area to put garbage. PERC answers:

“In fact, the United States today has more landfill capacity than ever before. In 2001, the nation's landfills could accommodate 18 years' worth of rubbish, an amount 25 percent greater than a decade before. To be sure, there are a few places where capacity has shrunk. But the uneven distribution of available landfill space is no more important than is the uneven distribution of auto manufacturing: Trash is an interstate business, with 47 states exporting the stuff and 45 importing it. Indeed, the total land area needed to hold all of America's garbage for the next century would be only about 10 miles square.”

Read the whole thing: <http://www.perc.org/perc.php?id=224>

MISCELLANY

Internet Safety for Kids

Too often there are news stories about young children who have been kidnapped or molested because they have gotten into trouble using the internet. Many young children and teens simply cannot comprehend the dangers of sharing information about themselves with strangers in chat rooms. As the adult in the household, you must be responsible for overseeing your youngster's internet use, but you may not know enough about the websites kids are using these days to provide that guidance. One of the police departments in my district has created a training program to give parents this valuable information. You can watch the video of Fontana Police Sgt. Tom Yarrington teaching you about your child's on-line profile, blogging, instant messaging, chat room activities, how to report inappropriate activity, and more. One of the most compelling parts of the video is when Sgt. Yarrington creates a fake profile and pretends to be a 13-year-old girl. Within minutes, a predator makes contact with this “young girl” who still does not understand what is going on even when Sgt. Yarrington makes clear that he is a police officer. If it can happen to a police officer in minutes, imagine what can happen to your unsuspecting child. In addition to watching the video, you can also download a document that provides all the training information. Find both the video and download at this link:

<http://www.fontanapd.org/>

and scroll down to Internet Safety Training Class.

A Good Read

This week's book recommendation is for the younger people in your life. Pre- and early- teens will enjoy “Quesadilla Moon” by a friend of mine, Gary D. Castillo. Castillo's background influences the story and makes the early scenes about the life of traveling crop-pickers so real.

The main character, a young man named David Dominguez, works hard in the fields alongside his family, but his real passion is singing. His father believes singing is for women and does not support David's exploration of his talent. As the book explores the themes of poverty, parenting and pursuing one's dreams, it also weaves in a look at racial attitudes in the early 1960s in California. To have the opportunity to sing without his father knowing, David goes to a black church where he is embraced because his voice is filled with "the gift." He ends up in a contest traditionally reserved for all black performers in Oakland and must overcome his father's objections, his own fears, and stereotypes about his skin color to discover whether he believes in "the gift" that others see in him. "Quesadilla Moon" has terrific insights about the mind of a young man and a message of faith, determination and hard work that make it a good read for young people.

BOE AND LEGISLATIVE DATES

August 14, 2007 --- Board of Equalization meets in Sacramento.

August 20, 2007 --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

September 3, 2007 --- Labor Day.

September 7, 2007 --- Last day to amend on the Floor (J.R. 61(a)(13), A.R. 69(e)).

September 11-12, 2007 --- Board of Equalization meets in Sacramento.

September 14, 2007 --- Last day for any bill to be passed (J.R. 61(a)(14)). Interim Recess begins on adjournment (J.R. 51(a)(4)).

October 2-4, 2007 --- Board of Equalization meets in Sacramento.

October 14, 2007 --- Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in the Governor's possession after Sept. 14 (Art. IV, Sec.10(b)(1)).

October 23-24, 2007 --- Board of Equalization meets in Sacramento.

November 11, 2007 --- Veteran's Day (observed by state government on Monday, November 12)

November 14-15, 2007 --- Board of Equalization meets in Sacramento.

NOTABLE DATES/ HISTORY

August 13, 1961 --- Construction on Berlin Wall began in East Germany.

August 14, 1935 --- Congress passed the Social Security Act.

August 14, 1951 --- Newspaper czar William Randolph Hearst died in Beverly Hills, California, at age 87.

August 15, 1939 --- The “Wizard of Oz” premiered at Grauman's Chinese Theater in Hollywood, CA.

August 15, 1948 --- The Republic of Korea (South Korea) was proclaimed.

August 15, 1988 --- President Ronald Reagan addressed the Republican National Convention, saying “Our Party speaks for human freedom, for the sweep of liberties that are at the core of our existence.”

August 16, 1812 --- American troops surrendered to the British at Detroit, Michigan, during the War of 1812.

August 17, 1786 --- Davy Crockett, frontiersman, adventurer and politician, was born.

August 17, 1846 --- The United States took control of Los Angeles after two years of hostilities with Mexico.

August 18, 1920 --- The Republican-authored 19th Amendment, giving women the vote, became part of the Constitution.

August 19, 1848 --- The New York Herald became the first east coast newspaper to publish an article confirming that gold had been discovered in California in January of that year.

August 20, 1866 --- President Andrew Johnson formally declared the Civil War over.

August 20, 1955 --- General H.A. Hanes set the world's first official supersonic speed record over the Mojave Desert when he flew an F-100C Super Sabre at an average speed of 822.135 mph. He was awarded the Thompson Trophy for his record runs made at an altitude of 40,000 feet.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

Bill Leonard, Member
State Board of Equalization, Second District
Email: bill.leonard@boe.ca.gov

Northern California Office:

400 Capitol Mall, Suite 2340
Sacramento, CA 95814
Telephone: (916) 445-2181
Fax: (916) 327-4003

Southern California Office:
4295 E. Jurupa Ave., Ste. 204
Ontario, CA 91761-1428
Telephone: (909) 937-6106
Fax: (909) 937-7044